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SIPDIS

LONDON FOR MURRAY; BERLIN FOR ROSENSTOCK-STILLER; BAKU FOR MCCRENSKY; BAGHDAD FOR POPAL AND HUBAH; ASHGABAT FOR TANGBORN; DUBAI FOR IRPO

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SUBJECT: A TURKEY-IRAN BUSINESS COUNCIL EXECUTIVE URGES
SANCTIONS ON IRAN

REF: (A) DUBAI RPO 1063 (B) ISTANBUL 421 (C) ISTANBUL
394 (C) ISTANBUL 336

CLASSIFIED BY: DEPUTY PRINCIPAL OFFICER WIN DAYTON; REASON 1.5 (D)

11. (C) SUMMARY: A TURKEY-IRAN BUSINESS COUNCIL BOARD MEMBER TOLD US THAT TRYING TO DO BUSINESS WITH IRAN HAS BECOME INTOLERABLE. HE SAID THIS IS BECAUSE IRAN'S ISLAMIC REVOLUTIONARY GUARD CORPS (IRGC) IS MUSCLING OUT OTHER PARTNERS; IRAN REFUSES TO LOWER CUSTOMS DUTIES; BANK MELLAT IS UNRELIABLE; AND THE POLITICAL RISK IS TOO ACUTE. IN A REVERSAL OF EARLIER VIEWS HE URGED TOUGHER INTERNATIONAL SANCTIONS AS A WAY TO FORCE A SYSTEMIC CHANGE TO IRAN'S ECONOMY. HE RECOMMENDED SANCTIONS AGAINST ALL COMPANIES OR FOUNDATIONS CONTROLLED BY SUPREME LEADER KHAMENEI'S FAMILY AND ALLIES AS WELL AS BY THE IRGC. HE SPECULATED THAT BANNING IRANIAN AIRCRAFT FROM FLYING OUTSIDE IRAN WOULD LIGHT A "POWDER KEG" AMONG IRAN'S ELITE. COMMENT: OUR CONTACT'S CHANGE OF HEART ON SANCTIONS WAS A SURPRISE. HE ADMITS TOUGHER SANCTIONS WOULD HURT TURKEY IN THE NEAR-TERM BUT THINKS IT IS IN TURKEY'S OWN ECONOMIC INTEREST TO "FORCE A CHANGE" THAT ENDS THE IRGC'S CORRUPT, CRONYIST CONTROL OVER A GROWING SWATH OF THE IRANIAN ECONOMY. WE WILL PULSE OTHER BUSINESS CONTACTS TO SEE IF THIS VIEW IS SHARED. IN ANY CASE THE KEY UNKNOWN IS WHETHER IRAN'S POPULACE WOULD INDEED BLAME THE REGIME FOR TOUGHER SANCTIONS, OR BLAME THE INTERNATIONAL COMMUNITY AND RALLY AROUND THE REGIME. OUR CONTACT SAYS THE FORMER. WE ARE NOT AS CERTAIN. END COMMENT.

DOING BUSINESS WITH IRAN IS BECOMING INTOLERABLE

12. (C) IN THE WAKE OF THE NOVEMBER 8-9, 2009, VISIT TO ISTANBUL OF IRANIAN PRESIDENT AHMADINEJAD, WE CALLED ON AN EXECUTIVE BOARD MEMBER OF THE TURKEY-IRAN BUSINESS COUNCIL (TIBC) WITH EXTENSIVE COMMERCIAL TIES TO IRAN (REF D), TO SOLICIT HIS VIEWS ON THE CURRENT STATE OF TURKEY-IRAN ECONOMIC AND COMMERCIAL RELATIONS. HE SAID TRYING TO DO BUSINESS IN IRAN, ESPECIALLY RECENTLY, IS BECOMING "INTOLERABLE."

13. (C) OUR CONTACT SAID THAT DOING BUSINESS IN IRAN, ALWAYS A CHALLENGE, HAS BECOME ALMOST IMPOSSIBLE IN THE POST-ELECTION CLIMATE. HE CLAIMED THAT A NUMBER OF PRIVATE SECTOR PARTNERS IN THE AUTOMOTIVE AND TRANSPORTATION SECTORS (INCLUDING KERMAN KHODRO) HAVE BEEN AGGRESSIVELY FORCED TO ABANDON CONTRACT NEGOTIATIONS WITH TURKISH AND OTHER FOREIGN COMPANIES BY SEPAH/IRGC-CONTROLLED BUSINESSES. THESE SEPAH-CONTROLLED BUSINESS ARE MUSCLING IN TO TRY TO GAIN MONOPOLY CONTROL OVER SUCH IMPORTS FROM TURKEY AND THE WEST. IN HIS CASE, A DEAL HE WAS TRYING TO BROKER TO SELL SEVERAL THOUSAND TURKISH TRACTOR TRAILERS TO A PRIVATE IRANIAN COMPANY (WITH TIES TO RAFSANJANI) WAS SQUASHED BY A COMPANY UNDER THE UMBRELLA OF A SEPAH-CONTROLLED BONYAD/FOUNDATION. THIS INCREASING ARBITRARINESS AND POLITICIZATION OF TRADE WITH IRAN, HE SAID, HAS LED THE TIBC TO ABANDON PLANS FOR A NEAR-TERM TRADE DELEGATION TO GO TO IRAN AS A FOLLOW-UP TO AN

OCTOBER 5 TRADE CONFERENCE IN ISTANBUL (REF C).

14. (C) OUR CONTACT DECLINED AN INVITATION TO ATTEND THE NOVEMBER 8 DINNER IN ISTANBUL FOR TURKISH AND IRANIAN BUSINESSMEN WITH AHMADINEJAD, BECAUSE HE SAW IT AS A WASTE OF TIME. HE NOTED THAT EVEN TIBC CHAIRMAN ALI OSMAN ULUSOY AND FORMER TURKISH TRADE MINISTER OF STATE TUZMAN DECLINED INVITATIONS AS WELL, IN SILENT PROTEST OF THE IRANIAN GOVERNMENT'S REFUSAL TO DO LOWER THE "UNFAIR" CUSTOMS DUTIES THAT IRAN LEVIES ON TURKISH GOODS: 45% FOR FINISHED PRODUCTS AND 20-40% FOR RAW MATERIALS AND SEMI-FINISHED PRODUCTS, ACCORDING TO THIS CONTACT. BY CONTRAST, TURKEY CHARGES 3-5% CUSTOMS DUTIES ON MOST IRANIAN GOODS ENTERING TURKEY. TURKISH OFFICIALS UP TO AND INCLUDING PM ERDOGAN HAVE PRESSED IRAN TO APPLY A RECIPROCAL DUTY, BUT IRAN HAS BEEN UNWILLING TO DO SO.

15. (C) MOREOVER, OUR CONTACT ADDED, THE GOT HAS NOT BEEN AS STRONG AN ADVOCATE IN RECENT WEEKS FOR TURKISH BUSINESS'S COMPLAINTS ABOUT IRAN BECAUSE IT IS MORE CONCERNED ABOUT KEEPING BILATERAL POLITICAL TIES WARM. OUR CONTACT CLAIMED THAT PM ERDOGAN'S OFFICE DID NOT INFORM THE TIBC OR ITS PARENT ORGANIZATION, TURKEY'S FOREIGN ECONOMIC RELATIONS BOARD (DEIK), IN ADVANCE OF THE SPECIFIC DATES OR AGENDA FOR ERDOGAN'S OCTOBER TRIP TO TEHRAN, AND DID NOT INVITE BUSINESS REPRESENTATIVES TO ATTEND. TIBC OFFICIALS WERE THEN SURPRISED THAT PRESS REPORTS OF THE TRIP HIGHLIGHTED SUPPOSED ECONOMIC AND TRADE TALKS BETWEEN ERDOGAN AND AHMADINEJAD, INCLUDING THE PLEDGE TO BRING BILATERAL TRADE VOLUME TO USD 20 BILLION BY 2011. "THAT FIGURE IS IMPOSSIBLE TO REACH EVEN IN A FEW YEARS", OUR CONTACT ASSERTED, "UNLESS IRAN FIXES THE CUSTOMS DUTIES PROBLEM."

16. (C) HE ALSO DESCRIBED THE CHALLENGE OF DEALING WITH BANK MELLAT'S "UNPREDICTABILITY." BANK MELLAT'S THREE BRANCHES IN TURKEY ARE THE ONLY IRANIAN BANKS FROM WHICH TURKISH BUSINESSES CAN GET A LINE OF CREDIT TO FINANCE TRADE DEALS WITH IRANIAN BUSINESSES, "AT LEAST UNTIL THE SO-CALLED AGREEMENT TO LET US MAKE CONTRACTS AND TAKE PAYMENTS IN TURKISH LIRA IS IMPLEMENTED." HE NOTED THAT ON ONE CONTRACT THAT HE WAS PERSONALLY INVOLVED IN AND ON SEVERAL OTHER DEALS THAT HIS COLLEAGUES WERE INVOLVED IN, EVEN AFTER THE DEAL WAS SIGNED AND THE LINE OF CREDIT AGREED THE IRANIAN SIDE RENEGED ON ASPECTS OF THE DEAL AND ORDERED BANK MELLAT'S ISTANBUL BRANCH NOT TO HONOR THE LINES OF CREDIT. TO OUR CONTACT'S FRUSTRATION, BANK MELLAT COMPLIED WITH THE IRANIAN BUSINESS'S REQUEST "PROBABLY BECAUSE THEY HAD IRANIAN LEADERSHIP CONNECTIONS."

TIME FOR SANCTIONS

17. (C) CONSISTENT WITH THE REF A REPORT FROM AN IRANIAN BUSINESSMAN IN ABU DHABI, OUR CONTACT SAID HE HAS COME TO THE CONCLUSION THAT THE ONLY ALTERNATIVE TO DEALING WITH AN EVER MORE CORRUPT, MILITARY-CONTROLLED IRANIAN ECONOMY WAS TO "SQUEEZE THE SYSTEM TO DEATH" AND START OVER. THIS CONTACT, IN A SIGNIFICANT REVERSAL OF OPINION, TOLD US HE HAS COME TO ACCEPT THAT ONLY TOUGH INTERNATIONAL SANCTIONS ON IRAN ENFORCED FIRMLY AND APPLIED FOR A PERIOD OF SIX MONTHS TO A YEAR CAN CHANGE THE REGIME'S APPROACH, OR INDEED FORCE A CHANGE IN THE REGIME.

18. (C) SUGGESTING THAT HIS IRANIAN BUSINESS CONTACTS AGREED WITH HIM, INCLUDING CONFIDANTES OF RAFSANJANI, OUR CONTACT URGED THE USG TO PUBLICLY NAME AND SANCTION EVERY COMPANY AND BONYAD (FOUNDATION) CONTROLLED BY SUPREME LEADER KHAMENEI AND HIS FAMILY, OR BY THE IRGC AND MILITARY, BY OTHER AHMADINEJAD CRONIES. HE ASSESSED THAT THE REGIME HAS LOST SO MUCH PUBLIC SUPPORT SINCE THE CONTESTED ELECTIONS THAT A MAJORITY OF IRANIANS WILL BLAME THE REGIME FIRST IN THE EVENT OF MUCH TOUGHER INTERNATIONAL SANCTIONS, EVEN FOR SANCTIONS THAT HURT AVERAGE IRANIAN HOUSEHOLDS (COMMENT: AS MOST SANCTIONS WOULD. END COMMENT.) HE SAID HIS PRIVATE SECTOR IRANIAN PARTNERS BELIEVE THAT A CONCERTED EFFORT TO CUT THE IRANIAN ECONOMY OFF ECONOMICALLY AND FINANCIALLY FROM WESTERN, GULF, AND ASIAN MARKETS WOULD RESULT IN NATIONWIDE POPULAR DISCONTENT IN A MATTER OF WEEKS. ABSENT IMMEDIATE IRANIAN STEPS TO

LIGHTEN THE SANCTIONS, SUCH DISCONTENT WOULD BE FOLLOWED BY MASSIVE STREET PROTESTS, STRIKES, AND EVEN OPPOSITION AND INFIGHTING WITHIN THE SYSTEM THAT WOULD LEAD EVENTUALLY -- OUR CONTACT ASSERTS -- TO THE FRACTURING OF A BRITTLE REGIME UNABLE TO CONTAIN THE NATIONAL ANGER.

19. (C) OUR CONTACT OFFERED TWO ADDITIONAL SUGGESTIONS FOR RAISING PRESSURE:

-- FIND WAYS TO BAR IRAN'S CIVIL AIRCRAFT FLEET FROM FLYING OUTSIDE OF IRAN. HE SUGGESTED THAT INTERNATIONAL CIVIL AVIATION AUTHORITIES (ICAO), OR A MAJORITY OF ICAO MEMBER STATES WORKING TOGETHER, COULD ISSUE SAFETY WARNINGS AGAINST ALL IRANIAN AIRCRAFT, EFFECTIVELY GROUNDING IRAN'S FLEET FROM FLYING ABROAD. THIS WOULD RESULT, HE SAID, IN "THE TEN MILLION IRANIANS WHO ARE ACCUSTOMED TO BEING ABLE TO FLY OUT OF IRAN FOR BUSINESS OR TOURISM TO OTHER COUNTRIES" -- AN INFLUENTIAL SEGMENT OF IRANIAN SOCIETY -- SUDDENLY FACING DESPERATE ISOLATION, MAKING THEM FEEL LIKE IRAN HAD BECOME NORTH KOREA, AND FORCING THEM TO GET OFF THE FENCE AND PRESS FOR DRAMATIC CHANGE. "IF IRANIANS CAN NO LONGER FLY OUTSIDE IRAN, AND ALREADY ARE FACING ECONOMIC HARDSHIPS AT HOME, IT WILL BE A POWDER KEG."

-- BAN INVESTMENT IN AND PURCHASES FROM IRAN'S OIL AND GAS SECTOR. OUR CONTACT ARGUED THAT A GASOLINE EMBARGO AGAINST IRAN WOULD NOT WORK, AS THAT WOULD STILL ENRICH THE IRGC AND REGIME (WHICH WOULD CONTROL THE BLACK MARKET DISTRIBUTION OF THE INEVITABLE INFLOW OF PETROL FROM THE GULF, TURKEY, AND ELSEWHERE). BUT IF CHINA AND JAPAN STOPPED BUYING IRANIAN GAS, AND WESTERN AND ASIAN COMPANIES WALKED AWAY INVESTMENTS IN THE SOUTH PARS GAS FIELD AND IRAN'S OIL FIELDS, "EVEN FOR ONE YEAR", THAT WOULD "CRIPPLE THE IRANIAN GOVERNMENT'S MAIN SOURCE OF INCOME, AND PROBABLY MARK THE END OF THE IRANIAN REGIME."

COMMENTS

10. (C) WE WERE SURPRISED BY OUR CONTACT'S CALL FOR TOUGH SANCTIONS ON IRAN. GIVEN HIS CLAIMS OF CLOSE LINKS WITH PRO-RAFSANJANI BUSINESSMEN, IT IS NO SURPRISE THAT HIS INITIAL ADVICE IS TO TARGET KHAMENEI AND IRGC ENTITIES. MORE UNEXPECTED WAS HIS SUPPORT FOR TAKING STEPS TO GROUND IRAN'S

AIRCRAFT AND THUS ISOLATE IRAN'S WIDER POPULATION, ESPECIALLY ITS TRAVELING CLASS, A COUNTER-INTUITIVE SUGGESTION COMING FROM A BUSINESSMAN WHO OWNS SEVERAL TOURISM AGENCIES (AMONG OTHER BUSINESS INTERESTS). OUR CONTACT ADMITTED THAT TOUGHER SANCTIONS WILL ADVERSELY IMPACT TURKEY IN THE NEAR-TERM, BUT HE CONCLUDES IT IS IN TURKEY'S OWN ECONOMIC AND BUSINESS INTEREST, PROVIDED SANCTIONS EVENTUALLY RESULT IN AN END TO THE IRGC'S CORRUPT, CRONYIST, ARBITRARY, AND EVEN SOMETIMES LAWLESS CONTROL OVER AN EVER-GROWING SWATH OF THE IRANIAN ECONOMY.

11. (C) TWO OF THE MOST IMPORTANT BUT UNKNOWN VARIABLES IN THIS DEBATE ARE WHETHER THE IRANIAN POPULATION WOULD INDEED BLAME THE REGIME FOR THE IMPOSITION OF TOUGHER SANCTIONS, OR BLAME THE INTERNATIONAL COMMUNITY AND RALLY AROUND THE REGIME; AND HOW LONG IT WOULD TAKE FOR SUCH SANCTIONS TO BRING IRAN TO A TIPPING POINT. THIS CONTACT ARGUED STRONGLY THAT THE FORMER SCENARIO IS MORE LIKELY, AND THAT A TIPPING POINT WOULD BE REACHED IN LESS THAN A YEAR UNDER SUCH SANCTIONS. HOWEVER, DISCUSSIONS WE HAVE HAD WITH A RANGE OF OTHER IRANIANS LIVING IN TURKEY OR VISITING FROM IRAN, BOTH BEFORE AND AFTER THE ELECTIONS, PAINT A GRAYER AND MORE AMBIGUOUS PICTURE OF WHO THE IRANIAN POPULATION WOULD BLAME, AND HOW MUCH MORE ECONOMIC PAIN THE POPULATION CAN ENDURE. THE BOTTOM LINE IS THAT EVEN MOST IRANIANS AREN'T CERTAIN. IN ANY EVENT, THIS CONTACT IS SCHEDULED TO VISIT TEHRAN NOVEMBER 22-27 TO MEET WITH SEVERAL IRANIAN BUSINESS PARTNERS, AND PROMISED US A READOUT AFTERWARDS. END COMMENT. WIENER